

Message Text

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73

ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 OMB-01 PA-03 PRS-01 USIA-12

RSR-01 /127 W

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R 221550 Z MAY 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1365

INFO AMEMBASSY BONN

AMEMBASSY BERN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

UNCLAS LONDON 05972

PASS TREASURY, COMMERCE, FRB.

E. O. 11652: N/ A

TAGS: EFIN, UK

SUBJECT: CHANCELLOR BARBER ANNOUNCES CUTS IN PUBLIC
EXPENDITURE

REF: LONDON A-161, JANUARY 31, 1973.

BEGIN SUMMARY: ON MAY 21, THE CHANCELLOR OF THE
EXCHEQUER, ANTHONY BARBER, ANNOUNCED CUTS IN PUBLIC
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SPENDING AMOUNTING TO NEARLY 100 MILLION POUNDS IN THE CURRENT FISCAL YEAR, AND FURTHER CUTS OF 500 MILLION POUNDS IN PROPOSED EXPENDITURES IN FISCAL YEAR 1974-75. THE MAIN REASON FOR THE CUTS IS TO PROVIDE RESOURCES FOR GROWING INDUSTRIAL INVESTMENT AND EXPORTS WITHOUT PLACING TOO GREAT STRAIN ON THE TOTAL ECONOMY. END SUMMARY

1. CUTS IN PUBLIC SPENDING OF ABOUT 100 MILLION POUNDS (1972 PRICES) IN THE CURRENT FISCAL YEAR AND 500 MILLION POUNDS IN 1974-75 WERE ANNOUNCED IN THE HOUSE OF COMMONS BY THE CHANCELLOR ON MAY 21. MR. BARBER SAW THE NEED TO MAKE CUTS IN PUBLIC SPENDING IN ORDER "TO MAKE SURE THAT THE U. K. HAVE SUFFICIENT RESOURCES FOR (THE) MORE VITAL ELEMENTS OF DEMAND - INDUSTRIAL INVESTMENT, EXPORTS, AND PERSONAL CONSUMPTION". THE CHANCELLOR, IN ACTING NOW, REJECTED THE IDEA OF INTRODUCING A MINI- BUDGET LATER ON OR RAISING TAXES TO CONTROL THE CURRENT EXPANSION.

2. THE MAIN CUTS IN PUBLIC EXPENDITURE ARE DUE TO TAKE PLACE IN ROAD CONSTRUCTION PROGRAMS AND IN SPENDING BY LOCAL AUTHORITIES AND NATIONALIZED INDUSTRIES. THE INCREASE IN THESE EXPENDITURES HAD ACCOUNTED FOR ABOUT 1.7 PER CENT (AT CONSTANT PRICES) OF THE EXPECTED INCREASE IN PUBLIC SPENDING BETWEEN 1973-1974 AND 1974-1975 AS OUTLINED IN THE PUBLIC EXPENDITURE WHITE PAPER (REPAIR).

3. THE 100 MILLION POUND CUT ANNOUNCED FOR THIS YEAR IS ESSENTIALLY TO BE SEEN AS THE FIRST EFFECTS OF NEXT YEAR' S CUTS, AND IN THEMSELVES MAKE LITTLE DIFFERENCE TO THE BASIC GOVERNMENT STRATEGY TO CURB INFLATION AND PUSH FOR REAL GROWTH OF 5 PER CENT AS ANNOUNCED IN THE BUDGET. THE CUTS WILL, HOWEVER, SLIGHTLY REDUCE THE CURRENT FISCAL YEAR' S BORROWING REQUIREMENT OF 4,423 MILLION POUNDS.

4. GENERAL REACTION TO THE SPENDING CUTS IS FAVORABLE. THE MAIN REACTION OF CONSERVATIVE BACKBENCHERS WAS UNCLASSIFIED

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RELIEF THAT PUBLIC EXPENDITURE WAS TO BE CUT, RATHER THAN TAXATION RAISED, OR PRIVATE INDUSTRY DISCOURAGED. ON THE LABOUR SIDE, DENIS HEALEY (SHADOW CHANCELLOR) GLOOMILY FORECAST A SECOND PACKAGE ANNOUNCING TAX INCREASES. THE CBI GAVE QUALIFIED APPROVAL TO THE CHANCELLOR' S STATEMENT AND THETUC' S VIC FEATHER DESCRIBED THE CUTS AS " FINE TUNING ".

5. DETAILS OF THE SPECIFIC CUTS AND THE CHANCELLOR' S
STATEMENT FOLLOW BY AIRGRAM.

ANNENBERG

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*** Current Classification *** UNCLASSIFIED

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